

CITY OF BELLEVUE  
CITY COUNCIL

Summary Minutes of Study Session

September 2, 2003  
6:00 p.m.

Council Conference Room  
Bellevue, Washington

PRESENT: Mayor Marshall, Deputy Mayor Degginger, and Councilmembers Creighton, Davidson, Mosher, and Noble

ABSENT: Councilmember Lee

1. Executive Session

Deputy Mayor Degginger opened the meeting at 6:01 p.m. and announced recess to Executive Session for approximately one hour to discuss one item of pending litigation and one item of potential litigation.

The Study Session resumed at 7:10 p.m. with Mayor Marshall presiding.

2. Study Session

(a) Development Services Improvement (DSI) Final Financial Policies

City Manager Steve Sarkozy recalled previous discussions with Council regarding the Development Services Improvement (DSI) process to streamline development services. Tonight's presentation focuses on a proposal to change the way in which fees are calculated for development review and inspection services.

Mike Brennan, Building Official, explained the objective to ensure the development services fee structure supports DSI's goals of fast, simple, and one city. In terms of guiding principles, Mr. Brennan said the fees should be reasonably competitive while allowing for timely and high quality services. Permit applicants should pay for the direct services they receive, but there should also be flexibility for projects providing a general public benefit. The funding structure should support the management of development services as a line of business. Fees should be predictable and understandable to the customer. Finally, fees should be efficient and cost-effective for the City to manage.

Mr. Brennan described the complexities in the current fee system, which includes different cost recovery objectives for different departments/service areas. He explained that centralized administrative costs are funded by land use and building fees. Land use is significantly supported by the General Fund in the cost recovery objectives and therefore a number of services funded through those fees are subsidized by the General Fund. Each department manages its funds and staffing separately, and the existence and level of reserve funds varies as well.

Mr. Brennan reviewed the following issues identified in staff's assessment of current fees:

- Inconsistent link between services provided and fees paid,
- Subsidy of central support costs, and
- Fee structure is not consistent with the DSI goal of a fast, simple, one city approach.

Jocelyn Mathiasen, Assistant to the City Manager, described three recommendations regarding development services fees:

1. Adopt a simplified rate model that enhances consistency across departments.
2. Reallocate centralized administrative support costs for a more equitable distribution across functions.
3. Establish a development services-wide reserve and work load strategy.

Ms. Mathiasen noted a technical memorandum from the City's consultants outlining the current approach, which demonstrates the inconsistency in cost recovery targets. The simplified rate model sets cost recovery objectives based on the type of service delivered to the customer. Staff proposes the following categories of services to be used for setting cost recovery objectives: policy development (0%), public information (0%), pre-submittal support (0%), discretionary review (50%), engineering review (100%), inspection (100%), and administrative support (100%).

Turning to the second recommendation, Ms. Mathiasen said administrative support costs for development services functions are currently borne by the Building Division, the Land Use Division, and the General Fund. The proposed model distributes costs between the Building Division, Land Use Division, General Fund, and the Utilities, Transportation, and Fire Departments.

The third recommendation is to establish an overall development services reserve and work load strategy. Ms. Mathiasen noted multiple reserves related to development services and the absence of reserves for Transportation, Fire, and Utilities development functions. The creation of an overall development services reserve will allow for a more holistic approach to managing development services as a line of business. Under the proposed model, all development services fees and General Fund and Utilities subsidies will be placed in a Development Services Fund, which would include a reserve allocation.

Ms. Mathiasen explained that development services reserves are needed to manage work load fluctuations and to continue to provide a consistent level of services. Reserve management is part of a broader management plan to promote efficiency and accountability. Reserves are

managed according to performance, work load, revenues, and expenditures. Staff's proposal is to establish a development services reserve of \$550,000 utilizing the following revenue sources: 1) small surcharge on permits (\$1 for Fire, \$2 for Transportation and Utilities), and 2) the reallocation of reserve and General Fund savings gained by redistributing central administrative costs.

Ms. Mathiasen reviewed three options for building reserves to the \$550,000 level. The rapid buildup scenario incorporates permit surcharge revenues and the reallocation of \$75,000 per year from reserve savings and as well as a General Fund reallocation related to redistributing central costs, achieving \$550,000 in approximately two years. The moderate buildup scenario utilizes the permit surcharges, \$75,000 per year from reserve savings, and the use of General Fund savings for the first year only. The first two sources would continue to build reserves during subsequent years until the \$550,000 level is achieved in just over three years. A slow buildup scenario would not use General Fund savings and would achieve the \$550,000 level in almost five years. Ms. Mathiasen noted the analysis assumes the City's current level of permit activity, which is anticipated to increase as the economy improves.

Ms. Mathiasen described the implications of the recommended financial policies. Development Services is currently a \$10.47 million business for the City, and this would increase to \$10.74 under the proposed policies. The General Fund subsidy would decrease from \$2.7 million per year to \$2.3 million per year. Turning to the table on page SS 2-6 of the Council packet, Ms. Mathiasen reviewed current permit rates, which have not been updated in many years, and estimated updated rates based on the current cost of services. She compared these to rates under the new model based on staff's recommended financial policies.

Mr. Brennan noted that permit fees for single-family development and additions experience only slight increases under the new model. Commercial developers are more interested in predictability and consistent service levels because delays and a lack of predictability can result in significant cost increases for their projects.

Turning to a comparison with other cities, Ms. Mathiasen said the comparison focused on permit fees and excluded impact fees. In general, jurisdictions that manage development services as an enterprise (King County and Seattle) have higher rates than Bellevue. Smaller surrounding cities tend to have lower fees and do not appear to recover overhead and related costs through their fees.

Ms. Mathiasen summarized the benefits of the new financial model: 1) facilitates comprehensive, cross-department management of Development Services, 2) promotes broad system-wide deployment of technology and support services, 3) allows staff to allocate resources based on need, 4) facilitates work load management throughout fluctuations in development activity, and 5) enables staff to meet the fast, predictable, One City objective.

Ms. Mathiasen requested Council feedback on the first recommendation for a simplified model with cost recovery objectives set based on the type of service delivered.

Responding to Mr. Creighton, Ms. Mathiasen clarified that the permit costs to be recovered under the new model are costs associated with engineering review, inspections, and permit processing.

Responding to Dr. Davidson, Mr. Brennan said discretionary review refers to conditional use reviews, design reviews, and similar activities that take place early in the process and often include public involvement.

Responding to Mr. Mosher, Ms. Mathiasen noted a handout in Council's desk packet listing current and proposed fees for all permit types.

Deputy Mayor Degginger expressed support for the proposed cost recovery objectives. Mayor Marshall noted Council's general support of the first recommendation.

Discussion turned to the second recommendation to reallocate central administrative support costs more equitably across development services functions.

Responding to Mayor Marshall, Planning and Community Development Director Matt Terry said one-time sales tax revenues from construction activity are isolated within the budget and the use of these funds will not be affected by the proposed development services fee changes.

Councilmembers indicated general support for the second recommendation.

Turning to the third recommendation regarding the establishment of a Development Services reserve, Mr. Degginger questioned the reserve target of \$550,000. Mr. Brennan explained that the figure represents approximately 20 percent of operating costs for delivering core development services. This is consistent with the current levels of the building and land use reserves.

Responding to Mr. Mosher, Mr. Brennan said the benefit of the rapid reserve buildup scenario is to build reserves as the economy experiences an upswing.

Mr. Creighton indicated a preference to reallocate reserve and General Fund savings but to avoid the permit processing surcharge.

At 8:02 p.m., Mayor Marshall declared recess to the Regular Session. The Study Session resumed at 8:30 p.m.

Deputy Mayor Degginger concurred with Mr. Creighton's suggestion to not impose a surcharge. Responding to Mayor Marshall, Mr. Sarkozy confirmed that this is an option for Council but it will likely take longer to fully fund the reserve.

Mayor Marshall asked staff to provide draft policy language for establishing a Development Services reserve and an analysis of how long it would take to fund the reserve if a permit surcharge is not implemented. Staff estimated the \$550,000 reserve could be funded within two to three years under this scenario and agreed to provide the information.

Councilmember Noble offered a different view and suggested that permit applicants should contribute to the funding of reserves, particularly since the surcharge is minimal. Noting the goal to reduce the General Fund subsidy of development services, Mr. Noble feels the approach expands the General Fund subsidy in order to build reserves.

Mayor Marshall thanked staff for their work and the presentation.

At 8:40 p.m., Mayor Marshall declared the meeting adjourned.

Myrna L. Basich  
City Clerk

kaw